

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

PURCHASED WATER ADJUSTMENT FILING)
OF THE ELKHORN WATER DISTRICT) CASE NO. 5036-1

O R D E R

On September 19, 1984, Elkhorn Water District ("Elkhorn") filed a motion for a reconsideration or hearing of the Commission's Order entered September 4, 1984. Specifically, Elkhorn stated that the Commission's decision was contrary to law and unjust and unreasonable by its inclusion of other income derived from temporary investments in the determination of proper rate levels which resulted in operating revenues below the level of operating expenses. Furthermore, Elkhorn contended that the Commission's exclusion of depreciation on contributed property was improper and contrary to established law.

The Commission is of the opinion that no reconsideration or hearing is warranted in this matter; however, the Commission does recognize the significance of the issues raised by Elkhorn and will take this opportunity to respond to Elkhorn's motion.

It is a longstanding Commission policy and established rate-making principle that, in a non-profit utility, all revenues and expenses inure to the customers as there are no stockholders or investors. Therefore, it must follow that any funds available

for investment have been generated through rates charged the utility's customers, and the earnings from such investments should then flow back to the benefit of those customers. In this case, that benefit was effected by the inclusion of interest income in the determination of Elkhorn's revenue requirements.

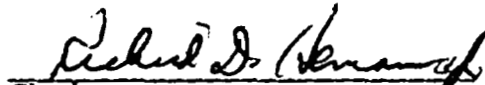
The Commission is aware of varying policies and decisions in other jurisdictions concerning depreciation on contributed property. However, it is the opinion of the Commission that utility rates should reflect only the costs actually incurred in providing service. In the case of contributed property, i.e., tap fees and governmental grants, the utility has no real cost as it has made no investment in property that was given to it. It would, therefore, be unfair to make the customers pay a return on property for which the utility has no investment.¹ Therefore, for rate-making purposes, depreciation as a method of cost-recovery is valid only for non-contributed property in which the utility has actually made an investment.

IT IS THEREFORE ORDERED that Elkhorn's motion for reconsideration or hearing be and it hereby is denied and the Commission's Order entered September 4, 1984, be and it hereby is affirmed in all respects.

¹ Princess Anne Utilities Corporation v. Virginia State Corporation Commission, 179 S.E.2d 714 (Va. 1971).

Done at Frankfort, Kentucky, this 9th day of October, 1984.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Secretary